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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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TO: Participating Schools and Lenders

FROM: Toots Lapata-Victorson, Deputy Director

DATE: September 26, 2003

SUBJECT: Educational Loan Notes

STUDENT LOAN DEFAULT RATE LOWEST EVER

The U.S. Department of Education (ED) recently announced the nation's student loan default rate has dropped to an all-time low of 5.4 percent for fiscal year 2001. Michigan's rate was 5.9 percent, down from 6.2 percent the year before. For the first time since 1989 no schools are facing loss of eligibility in federal student loan programs due to high default rates. The FY 2001 rate released September 15, 2003, is the most current data available and includes data on borrowers who attend 6,200 schools that participate in the Federal Family Education Loan Program (FFELP) and the Federal Direct Loan Program (FDLP).

Schools looking for innovative ways to help reduce their cohort default rate are reminded that Life Skills Train-the-Trainer workshops are scheduled for this fall. Life SkillsSM is a leading-edge financial literacy program that helps students manage their finances and complete their degrees or programs on time, stressing the importance of student loan repayment.

These hands-on workshops are designed for any school personnel that are in a position to discuss various strategies for coping with the financial and academic challenges of students at their schools. Examples include staff at orientation sessions, residence hall advisors, financial aid advisors, counselors, and instructors. Life Skills is designed for independent use or can be incorporated into many academic areas.

Workshop dates and locations are as follows:

October 8 – Marquette	November 5– Troy
October 9 – Gaylord	November 6 – Plymouth
October 23 – Kalamazoo	November 13 – Lansing
October 24 – Grand Rapids	November 14 – Flint

Register for the workshops on-line by going to our Web site at Michigan.gov/mistudentaid. On our homepage listed under "Upcoming Events" is a link to the on-line registration form. All reservations will be acknowledged with a confirmation e-mail including directions to the workshop site.

Questions concerning the Train-the-Trainer Workshops should be directed to Nancy Vaughn at 1-800-642-5626, extension 31871, or via e-mail at vaughnn@michigan.gov.

DOES YOUR OPENNET/NETWIZARD ACCESS NEED TO BE UPDATED?

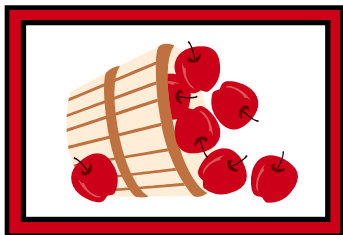
Many schools have seen recent staff changes, and the Michigan Guaranty Agency (MGA) is encouraging the OpenNet/NetWizard administrator for each school to update the school's contact information. These simple updates can be made on-line.

To make these updates, the administrator needs to log in to OpenNet/NetWizard and follow the steps outlined below.

1. Under **Setup NetWizard Services** -- click on **Modify Setup** for **General School Information**.
 - a. This will open a "pop-up" window with a form to allow you to change the **institution** and **school contact information**.
 - b. Make any changes to your institution's information and submit the changes you have made.
2. If you need to *add, edit, or delete* staff from NetWizard access, click the appropriate button at the bottom of **Maintain User IDs**.
 - a. Add information on the new user, or select the current user to change information.
 - b. Submit the changes.
3. Please remember to **log out** of NetWizard after you have submitted the appropriate changes.

OpenNet/NetWizard allows schools to access the MGA database to check on guarantee, estimated disbursement, and basic loan history information, as well as make non-monetary status changes.

If you have additional questions regarding this process, please call Flora Boles at extension 52882, or e-mail her at bolesf@michigan.gov.



2003 FALL SCHOOL WORKSHOPS

Mark your calendar for the 2003 Fall School Workshops. Once again, MGA is offering three different locations. The workshops are scheduled as follows:

Tuesday, November 18, 2003

Holiday Inn

Mt. Pleasant, MI

Wednesday, November 19, 2003

Crowne Plaza Hotel

Grand Rapids, MI

Thursday, November 20, 2003

St. John's Conference Center

Plymouth, MI

Tentative agenda topics include:

- In the News (Policy/Regulatory Update, Federal Application Process)
- The New Horizon (Technology for the Financial Aid Administrator)
- Financial Literacy
- Guide to Parents and Students (Educational Financial Planning)
- Professional Judgment and Verification
- Retention and Default Prevention

Workshop details will be sent electronically in October with a complete agenda and registration form. If you have questions or suggestions for workshop topics, please feel free to contact Flora Boles at extension 52882 or Nancy Vaughn at extension 31871.

COMMON ACCOUNT MAINTENANCE LENDERS/SERVICERS MAY NOW SUBMIT CLAIMS ELECTRONICALLY

The Higher Education Act of 1992, section 432.m, requires lenders and guaranty agencies to use standard forms to report all loan information. Based on this regulation, the National Council of Higher Education Loan Programs (NCHELP) established a Common Forms work group to develop the common claim form. The goal is for all lenders and servicers to be able to submit Notices of Default (NODs) to the guarantor using a single form with common data elements and edits.

(Continued on the next page.)

Since the approval of the common Pre-Claims Assistance (PCA) and NOD paper forms, the NCHELP committee has been working to develop a common electronic format to support the paper version of the common claim form. The result of this group's efforts is to incorporate NOD records into Common Account Maintenance (CAM).

The CAM file is a standard electronic format that is designed to handle the electronic exchange of data between guarantors, lenders and servicers. Records in this file will be used to send status transactions, as well as PCAs and NODs to the guarantor. The NOD CAM records will be used in place of a proprietary format. **A lender/servicer may now submit an electronic claim under the CAM format to MGA.** If you have any questions regarding Nod CAM records, please contact Kris Goodman at extension 37189 or via e-mail at goodmank1@michigan.gov.

BANKRUPTCY CLAIMS

MGA manages two main types of bankruptcy claims, Chapter 13 and Chapter 7. While both types seek protection from creditors, Chapter 13 bankruptcy is filed to restructure debt so payments are more manageable. Chapter 7 bankruptcy is filed when a debtor seeks to have all their debt cancelled. However, the courts have ruled that student loans are not dischargeable through bankruptcy, so even in this situation the debtor is responsible to make arrangements to repay the loan.

Chapter 7 Bankruptcy

Lenders should not file Chapter 7 bankruptcy claims with MGA. Upon receipt of bankruptcy notification, the lender must cease all collection activity and hold the loan until the bankruptcy action concludes. At that time, the lender must determine the correct status of the account and return it to that status.

Chapter 13 Bankruptcy

If a lender receives notice that a borrower has filed Chapter 13 bankruptcy, the lender is required to file a claim with MGA. The lender has 30 days from the date of notification to file a proof of claim with the

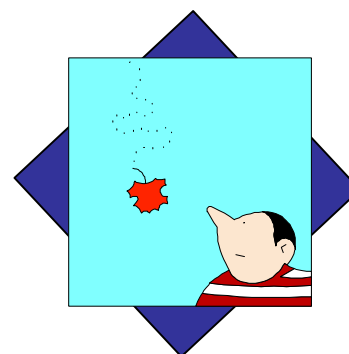
bankruptcy court and to file a bankruptcy default claim with MGA.

Often a borrower will apply for a new student loan while still in Chapter 13 bankruptcy and in default status. Federal regulations require the borrower to have made provisions in their Chapter 13 plan for paying back the outstanding student loans before a new loan can be approved. Student loans are classified as unsecured debts. The Chapter 13 plan must provide for more than zero percent payback on unsecured loans in order for the borrower to be eligible for new financial aid.

In addition, a borrower who is in Chapter 13 bankruptcy is considered under a court order and is required to abide by the provisions of the bankruptcy plan. If the plan has an injunction against new debt without court approval, MGA requires the borrower to petition the court to authorize any student loan over the amount allowed by the plan.

If the student loan defaulted as a result of the bankruptcy, the lender must repurchase the account from MGA and return the loans to the appropriate status once the bankruptcy action has concluded (dismissal, completion of the plan, etc.) When the repurchase is complete, the loans are no longer considered in default. If, however, the loan was in default status prior to the Chapter 13 bankruptcy the loan will remain in default and MGA will resume collection activity on the defaulted account.

Rich Ziebarth, Claims and Collections, is MGA's in-house bankruptcy specialist. Rich handles everything from routine paperwork to court appearances, and his expertise is invaluable. If you have any questions regarding bankruptcy issues, please contact Rich at extension 54539 or via e-mail at ziebarthr@michigan.gov.



THE “ED” PIPELINE

Following is a list of some of the most recent ED correspondence for schools and lenders.

Dear Partner**August 2003****ANN-03-09**

This letter invites you to join one of two Electronic Access Conferences (EACs) sponsored by the U.S. Department of Education. The conferences will be held at the Manchester Grand Hyatt in San Diego, California, November 2-5 and at the Sheraton New Orleans in New Orleans, Louisiana, December 2-5, 2003. These conferences will provide updates to the Title IV delivery system and help financial aid professionals efficiently and effectively manage all electronic aspects of student aid delivery.

Dear Partner**August 2003****GEN-03-10**

This letter reminds foreign schools that participate in FFELP of various requirements that must be followed. Foreign schools that are out of compliance must take prompt corrective action.

SCHOOL LIST UPDATES

The following changes should be recorded by lenders on MGA's "Active Michigan School List" dated August 6, 2003. If you have any questions regarding these changes, please contact Stacy Cardwell at extension 36074.

Contact Updates

Blue Water College of Cosmetology, Marysville, 037043-00

Mark VanKehrberg's title is Owner.

Davenport University, Kalamazoo, 002249-02

Kathy Stewart's title is Academic Advisor.

University of Phoenix, Grand Rapids, 020988-00

Change George Peterson to Lee Balkema, Financial Aid Officer. Her e-mail address is lee.balkema@phoenix.edu.

E-mail Changes

University of Phoenix, Southfield, 020988-00

Georgianna Bailey's e-mail address is georgianna.bailey@phoenix.edu and fax number is 248-354-5969.

Siena Heights University, Adrian, 002316-00

Pam Sheahon's e-mail is psheahon@sienahts.edu.

LENDER LIST UPDATES

School personnel should record the following actions on the "Participating Lender List" dated May 1, 2003. Please make the appropriate changes in all sections of the list as needed. If you have any questions regarding these updates, please contact Pat Fromm at extension 36076.

Name Changes

Citibank of New York, 828154, changed its name to Citibank, N.A.

Citibank Student Loan Corporation, 826878, changed its name to Citibank, N.A.

Newly Participating Lenders

U.S. Bank National Association as Trustee for Pecos Student Finance Corporation, 833285, c/o American Education Services, 120 North 7th Street, Harrisburg, PA 17102. Telephone: 800-446-8210.

U.S. Bank National Association as Trustee for EFSI, 833617, c/o American Education Services, 120 North 7th Street, Harrisburg, PA 17102. Telephone: 800-446-8210.

Pecos Student Finance Corporation/Trustee Wells Fargo Bank, 833666, c/o American Education Services, 120 North 7th Street, Harrisburg, PA 17102. Telephone: 800-446-8210.

Joined Referral Program

The following lender has joined the Standard Federal referral loan program. The address for this lender is c/o Nelnet, Inc., P.O. Box 82596, Lincoln, NE 68501-2596. Telephone: 800-755-7858.

222015 Good Shepherd Credit Union

“Q” AND “A”***Loan Discharge Due to
Total And Permanent Disability*****What is the definition of “totally and permanently disabled?”**

The condition of an individual who is unable to work and earn money because of an injury or illness that is expected to continue indefinitely or result in death.

What is the difference between a conditional discharge and a final discharge due to total and permanent disability?

A conditional discharge due to total and permanent disability allows the borrower (and, if applicable, any endorser) to stop making payments on their loan(s) during the conditional discharge period while the U. S. Department of Education (ED) evaluates their eligibility for a final discharge. A conditional discharge is granted when ED makes an initial determination that the borrower is totally and permanently disabled as defined above.

A final discharge due to total and permanent disability cancels the borrower's obligation (and, if applicable, any endorser's obligation) to repay the remaining balance on their FFELP, Perkins, and/or FDLP loans. ED grants a final discharge if the borrower meets certain conditions during and at the end of the conditional discharge period.

Is a borrower required to make loan payments during conditional discharge period?

During the conditional discharge period the borrower is not required to make any loan payments and is not considered to be delinquent or in default on their loans, unless the borrower was delinquent or in default at the time the conditional discharge was granted.

In addition the borrower must promptly notify ED if their annual earnings from employment exceed the poverty line amount for a family of two in their state (regardless of actual family size) and if there are any changes in their address or telephone number. If requested, the borrower must provide ED with additional

documentation or information related to their eligibility for loan discharge. This may include, but is not limited to, documentation of their annual earnings from employment.

How long does the conditional discharge period last?

The conditional discharge period begins on the date that the borrower became totally and permanently disabled, as certified by the physician who completes section 3 of the Loan Discharge Application, and lasts for up to three years. The conditional discharge period ends when ED either grants a final discharge or determines that the borrower does not qualify for a final discharge.

How do you get a Loan Discharge Application?

You can access this application by going on-line to <http://www.ed.gov/offices/OSFAP/DCS/forms.html> or to <http://www.nchelp.org/elibraryII/Main/06-Forms/06C-ForgiveDischarge/default.htm> and downloading a PDF file of the Loan Discharge Application.

How does a borrower qualify for a conditional discharge?

To qualify for a conditional discharge, the borrower must have a total and permanent disability.

How does a borrower qualify for a final discharge?

To qualify for a final discharge the borrower must meet the following conditions during and at the end of the conditional discharge period:

- The borrower's annual earnings from employment must not exceed the poverty line amount for a family of two in their state (regardless of actual family size).
- The borrower must not receive a new loan under the FFEL Program, the Federal Perkins Loan Program, or the Federal Direct Loan Program.

NOTE: A physician cannot certify that a borrower has a total and permanent disability if,

(Continued on the next page.)

at the time of the physician's certification, the borrower is able to work and earn money in any capacity. However, if the borrower attempts to work during the conditional discharge period, the borrower may earn up to the poverty line amount for a family of two in their state (regardless of family size) each year during that period. This standard allows the borrower to try to work without being disqualified from receiving a final discharge. The poverty line amounts are updated annually. ED will notify the borrower of the current poverty line amounts during each year of the conditional discharge period.

Is a borrower, who has received a conditional discharge of a prior loan due to total and permanent disability, eligible for further FFELP loans?

A borrower who has received a conditional discharge of a prior loan due to total and permanent disability must do **ALL** of the following to receive a new Stafford or PLUS loan before the end of the conditional discharge period:

- Obtain a physician's statement certifying that the borrower may now engage in "substantial gainful activity." For these purposes "substantial gainful activity" is defined as the ability to work and earn money.
- Sign a statement acknowledging that any loan that has been conditionally discharged may not be discharged due to the same or any disability existing at the time the borrower applied for a total and permanent disability or when the new loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met.
- Sign a statement acknowledging that collection activity will resume on any loans in a conditional discharge period.

The borrower's receipt of a new Stafford or PLUS loan terminates the borrower's conditional discharge, and ED reinstates collection activities on any loan which collection activity had been previously suspended based on an initial determination of total and permanent disability.

Is a borrower eligible for further FFELP loans if the borrower has received a final discharge of a prior loan due to total and permanent disability?

A borrower who has received a discharge of a prior loan due to final determination that the borrower is totally and permanently disabled must do **ALL** of the following to be eligible to receive a new Stafford or PLUS loan:

- Obtain a physician's statement certifying that the borrower may now engage in "substantial gainful activity." For these purposes, "substantial gainful activity" is defined as the ability to work and earn money.
- Sign a statement acknowledging that any new loan the borrower receives may not be discharged due to the same or any disability existing at the time the new loan is made, unless the disabling condition substantially deteriorates to the extent that the definition of total and permanent disability is met.
- Reaffirm any loan that had been discharged due to total and permanent disability on or after July 1, 2001, but before July 1, 2002, if the borrower applies for a new loan within three years from the date the borrower became totally and permanently disabled, as certified by a physician. The borrower must reaffirm the previously discharged loan before receiving a new loan.

A borrower who has had a prior loan discharged due to total and permanent disability before July 1, 2001, is not required to reaffirm the discharged obligation.

Sources: Loan Discharge Application: Total and Permanent Disability, OMB 1845-0065. ED Dear Colleague Letter GEN-02-03, (March, 2003).



Calendar of Upcoming Events

October 2003

- 7 Mapping Your Future Evening Chat
Finding the School of Your Dreams
and Gaining Admission
- 8 Life SkillsSM Train-The-Trainer Workshop
Comfort Suites
Marquette, Michigan
- 9 Life SkillsSM Train-The-Trainer Workshop
Hampton Inn
Gaylord, Michigan
- 12-15 MASFAA Conference
Hilton Milwaukee City Center/Midwest
Center
Milwaukee, Wisconsin
- 22 SFA Training
2003-04 Cash Management Life Cycle
Training
Macomb Community College
Warren, Michigan
- 23 Life SkillsSM Train-The-Trainer Workshop
Clarion Hotel
Kalamazoo, Michigan
- 24 Life SkillsSM Train-The-Trainer Workshop
Crowne Plaza
Grand Rapids, Michigan
- 24-26 Michigan Bankers Association
Retail Lending Conference
Shanty Creek
Bellaire, Michigan

November 2003

- 5 Life SkillsSM Train-The-Trainer Workshop
Marriott Hotel
Pontiac, Michigan
- 6 Life SkillsSM Train-The-Trainer Workshop
St John's Conference Center
Plymouth, Michigan
- 11 Mapping Your Future Evening Chat
for Student Loan Borrowers Regarding
Loan Consolidation
- 11 MGA Office Closed
- 13 Life SkillsSM Train-The-Trainer Workshop
Clarion Hotel
Lansing, Michigan
- 14 Life SkillsSM Train-The-Trainer Workshop
Courtyard by Marriott
Flint, Michigan
- 18 MGA Fall School Workshop
Holiday Inn
Mt. Pleasant, Michigan
- 19 MGA Fall School Workshop
Crowne Plaza Hotel
Grand Rapids, Michigan
- 20 MGA Fall School Workshop
St. John's Conference Center
Plymouth, Michigan
- 27-28 MGA Office Closed

**If you need further information or wish to submit items for the calendar, please contact
Jim Peterson, Editor, at extension 36944, or via e-mail at peterstonj@michigan.gov.**

LOAN NOTES

September 2003

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